

City of Naples, Utah
Annual Financial Report

June 30, 2005

CITY OF NAPLES, UTAH

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Independent Auditors' Report

Honorable Mayor and City Council
City of Naples, Utah

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Naples, Utah as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Naples, Utah management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Naples, Utah as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2005 on our consideration of City of Naples, Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 41 through 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Naples, Utah's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caldwell Coombes & Kelly LLP

Vernal, Utah

December 13, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Naples, Utah
Financial Statement – FY 2004/2005
Completed by: Craig Blunt
December 20, 2005

Our discussion and analysis of the City of Naples financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2005. Please read this in conjunction with the City's Financial Statements.

Purpose of Report

This annual report consists of a series of financial statements, which follow uniform governmental accounting, financial, and auditing standards. The Statement of Net Assets and the Statement of Activities on pages 12 and 13 provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 14. These statements tell how the City is financed in the short term as well as what remains for future spending. The Statement of Revenues, Expenditures, and Changes in Fund Balances on page 17, reports the City's operations in more detail by providing information about the City's most significant funding, expenditure, and revenue categories in more detail.

Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides information about activities for which the City acts solely as an agent for the benefit of those outside the government.

Financial Highlights

The City's net assets have changed substantially. Total assets have increased 14% over the prior year. This is primarily due to improvements to roads and equipment purchases. The City invested funds for a new police vehicle and received Home Land Security Funds to up-grade equipment to meet the hazardous chemical challenges for first responders. The Fire Department as First Responders received FEMA funds to upgrade their SCBAs and other needed equipment. The City Park received a 16 acre addition, adding a park maintenance building, public bathrooms and a irrigation system to keep the new addition green. The Road Department replaced a city truck, added a street sweeper and front loader to its fleet and rebuilt 1700 South Road. There was 6 miles of road that was chip sealed, bring these roads to a class "A" rate.

The City's restricted and unrestricted funds increased more than 10% over the prior year. This is due to investing in the future replacement of police vehicles, fire equipment, and road construction projects.

The Governmental Funding resources that increased the capital projects and assets for the City were generated mainly from the increased sales tax and grant awards. The City of Naples' major businesses are the gas, oil, and mining industries. There has been a steady increase in activity, which has generated an increase in sales tax revenue. This year the City was awarded grants to assist in road construction projects, an addition to the new park, a maintenance building and irrigation system to keep the new addition to the park green.

The City's due to the demand for services from the increase oil and gas activities has had to hire additional police officers and road crew. The volunteer fire department has increased their numbers and stand by replacements to meet the demands.

Reporting the City as a Whole

The analysis of the City as a Whole begins on page 12 and 13. One of the most important questions asked about the City's finances is, "Is the City, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities provide an overview of the City as a whole and about its activities in a way that helps answer the above question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between the assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors; however, such as changes in the City's property tax base and the condition of the City's roads to assess the overall health of the City. The statements indicate that the City is in good financial health and is improving.

Reporting the City's Most Significant Funds

Our analysis of the City's major funds begins on page 14. The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State Law and by the Bond Covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes such as the capital projects road fund or to show that it is meeting legal responsibilities for using certain taxes, grants,

or other monies such as the Naples Redevelopment Agency or Special Improvement District No. 2000-1 funds. The City's most significant fund is the General Fund. All of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The governmental fund information helps you determine what resources are available to be spent in the near future to finance the City's programs.

The City's Combined Net Assets

The City's combined net assets increased 17% from a year ago. Prior year was \$6,626,597 while the current year is \$7,743,153. Looking at the net assets and net expenses of our government activities separately, two different stories emerge. Our analysis below focuses on the net assets, (Table 1) and the change in net assets (Table 2) of the City's governmental activities.

**Table 1
NET ASSETS**

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Capital Assets	\$6,204,596	\$5,761,081	\$ 443,515	8%
Current and other assets	1,824,286	1,159,820	664,466	57%
Total Assets	<u>8,028,882</u>	<u>6,920,901</u>	<u>1,107,981</u>	16%
Long-term liabilities	120,759	141,108	(20,349)	-14%
Other liabilities	164,970	153,196	11,774	8%
Total liabilities	<u>285,729</u>	<u>294,304</u>	<u>(8,575)</u>	-3%
Net assets				
Invested in capital assets, net of related debt	6,112,596	5,650,081	462,515	8%
Restricted	139,574	126,210	13,364	11%
Unrestricted	1,490,983	850,306	640,677	75%
Total net assets	<u>\$7,743,153</u>	<u>\$6,626,597</u>	<u>\$1,116,556</u>	17%

Unrestricted net assets – the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, increased over the prior year. The increase in unrestricted net assets rose primarily because of sales tax revenues and grants. The funds were used to add onto the park, purchased new police vehicles, road department equipment, fire department equipment and the reconstruction of city streets.

Table 2
CHANGES IN NET ASSETS

	<u>Current Year</u>	<u>Prior Year</u>	<u>Change</u>	<u>% Change</u>
Program Revenues:				
Charges for services	\$ 127,095	\$ 125,701	\$ 1,394	1%
Operating grants and contributions	67,207	87,683	(20,476)	-23%
Capital grants and contributions	681,639	834,483	(152,844)	-18%
General Revenues:				
Property taxes levied for:				
General purposes	46,717	53,147	(6,430)	-12%
Redevelopment	38,418	43,924	(5,506)	-13%
Sales taxes	1,440,110	905,446	534,664	59%
Franchise taxes	113,614	104,788	8,826	8%
Miscellaneous	30,994	13,421	17,573	131%
Total revenues	<u>2,545,794</u>	<u>2,168,593</u>	<u>377,201</u>	17%
Expenses:				
General government	353,609	324,024	29,585	9%
Public Safety				
Police	337,596	272,982	64,614	24%
Fire	171,565	100,665	70,900	70%
Other	29,570	22,310	7,260	33%
Highways & public improvements	455,828	388,700	67,128	17%
Parks, recreation & public property	80,027	42,057	37,970	90%
Interest and fiscal charges on long-term debt	<u>1,043</u>	<u>840</u>	<u>203</u>	24%
Total expenses	<u>1,429,238</u>	<u>1,151,578</u>	<u>277,660</u>	24%
Change in net assets	1,116,556	1,017,015	99,541	10%
Net assets - beginning	<u>6,626,597</u>	<u>5,609,582</u>	<u>1,017,015</u>	18%
Net assets - ending	<u>\$7,743,153</u>	<u>\$ 6,626,597</u>	<u>\$1,116,556</u>	17%

The City's total revenues increased over the prior year. The main factor that leads to the increase in revenue was the increase in oil and gas exploration. No new programs were added to the City's regular business services, but with the gain of revenues the City's management chose to replace old service equipment such as police vehicles, road department equipment, fire department personal protection equipment and to upgrade roads and parks.

The Statement of Activities shown on page 13 presents the cost of each of the City's largest programs and compares total costs less revenues generated by the activities. The cost shows the financial burden that was placed on the City's taxpayers by each of these functions and the amount generated by property taxes, sales taxes, and franchise taxes levied to pay for these functions. Because costs for the City's largest programs are substantial, the City made application to other governmental programs and organizations to help subsidize funding and allowed us to complete these programs. This year's capital grants and contributions totaled \$681,639. Streets are and will be high maintenance costs, mainly due to the heavy industrial business equipment traffic and the harsh winter months. The City management must seek outside funds to keep roads in top condition due to the City's small revenue from sales tax, property tax, and franchise tax.

The City's Funds

As the City completed the year, its governmental funds as presented on the Balance Sheet on page 14, report a combined fund balance of \$1,645,739, which is an increase of \$658,755 over the prior year. These numbers confirm a healthy and improving City. This year the City has a healthy economy, which allows the City management to work on projects that have been on hold due to lack of funding.

Redevelopment Agencies

The City has two Redevelopment Agencies (RDA), RDA1 and RDA 1500 South. The larger agency, RDA1, was set up in the early 1980's for the purpose of leveling the blight conditions at the economies bust of the mining industries. Due to the bust, the agencies received little income, but plan to provide the necessary infrastructure in its jurisdiction to help elevate the blight conditions.

General Fund Budgetary Highlights

Over the course of the year, the City Council opened and amended the City budget a few times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect actual beginning balances. The second category includes changes that the Council made during the third quarter to take into account several increases in appropriations to prevent budget overruns. The third category includes the allocation of increased revenues. The increase was due to increased sales tax, grants and donations. These funds were appropriated for prioritized capital projects that have been on hold due to lack of funding. For example, the new park additions, the addition of vehicles and equipment, and the completion of 1700 South Road project.

Transfers

Because of the increase in business activities, revenues were up. Significant surplus revenues prompted the City Council to make transfers of this surplus revenue to other Departments and Capital Projects. These funds were used for a 50/50 match grant for fire equipment and irrigation system for the city park addition. Funds went into sinking funds for the future replacement of road, fire and police equipment (such as vehicles). Surplus funds were transferred into the Park Capital Projects Fund for the future development and expansion of the Naples City Park. The surplus revenue was also put into Road Capital Projects to match other governmental funds for the rebuilding of roads.

Capital Asset and Debt Administration

Capital Assets

At the end of 2005 the City had an investment of \$6,204,596 in a broad range of capital assets, including police equipment, fire equipment, buildings, park facilities, and roads. This year's major projects represent and include:

- 1700 South Road Project by Uintah Special Service District
- City Park Maintenance Building and Public Bath Rooms
- Irrigation System for the expansion of the City Park
- Building up and replacement of vehicles and equipment for Fire, Police and Road Departments
- Chip Sealing with Flush Coat City Streets

Table 3
Capital Assets at Year-end
(Net of Depreciation)

	6/30/2005	6/30/2004	Increase (Decrease)	% Change
Land	\$ 384,600	\$ 384,600	\$ -	0%
Streets, sidewalks and bridges	4,232,992	3,381,117	851,875	25%
Equipment	406,409	356,990	49,419	14%
Improvements	623,609	631,201	(7,592)	-1%
Buildings	540,928	269,223	271,705	101%
Construction in progress	16,058	737,950	(721,892)	-98%
Total	<u>\$6,204,596</u>	<u>\$5,761,081</u>	<u>\$ 443,515</u>	<u>8%</u>

The City's 2006 Capital Budget calls for it to spend on park facilities, road reconstruction, and equipment purchases. The City has no plan to issue additional

debt to finance these projects. Rather, we will seek grants to fund 80% of the projects and utilize general funds for the other 20%.

Debt

The City's revenue bonds carry an AAA rating. The State limits the amount of debt that cities can carry to 4% of the assessed value of all taxable property within the City's corporate limits. The City has no general obligation debt. However, Ashley Valley Water and Sewer District is a district that carries a considerable amount of general obligation debt for the upgrading of sewer and water within Naples City and Uintah County. This debt is an impact to the Naples City taxpayers. They pay the taxes to pay off these general obligation bonds and should be considered as part of our tax obligation when we are discussing debt within Naples City.

Table 4
Outstanding Debt at Year-end

	6/30/2005	6/30/2004	Increase (Decrease)	% Change
Road Revenue Bonds Series 2000	\$ 92,000	\$ 111,000	\$ (19,000)	-17%
Special Assessment Bonds 2002	20,552	23,121	(2,569)	-11%
Accrued Leave	8,207	6,987	1,220	17%
Total	<u>\$120,759</u>	<u>\$ 141,108</u>	<u>\$ (20,349)</u>	<u>-14%</u>

Economic Factors and Next Years Budgets and Rates

The City's elected and appointed officials considered many factors when setting the 2006 budget, tax rates, and fees. One of those factors is the economy. The City's population growth has mirrored the employment growth averaging annual gains of 5.3%. Unemployment in the City now stands at 4.2% with the States unemployment at 4.6% and the National rate of 5.2%.

The mining industry with its supporting services provides the City's employment base and tax revenue base. The mining and government industry have the largest payrolls in the County, which are the City's primary businesses that generate sales tax revenue. Their activity has increased which has increased the sales tax revenue.

These indicators were taken into account when adopting the General Fund budget for 2006. Amounts available for appropriation into the General Fund budget for 2006 should increase 28% over 2005 revenues and would remain about the same with a small increase due to new business growth and the infrastructure needs to service the new growth.

The City will use this increase of revenues to finance programs we currently offer and begin funding the prioritized programs that have been on standby until funding was available.

We expect inflation of 3% and budget increases in wages and cost of living adjustments based on wages offered to the mining industries and other governmental agencies in our City and County. If these estimates are realized, the City's budgeting General Fund balance is expected to increase by 28%. More importantly, the City realizes that the mining industry economics fluctuate from year to year. The City's management must keep close contact with local businesses in order to foretell what the mining economics and its impacts will bring from year to year. The City must be conservative in its spending and not build more than can be maintained when the mining industry is at a low.

Contacting the City's Financial Management

The financial report is designed to provide our citizens, taxpayers, customers, creditors, and investor with a general overview of the City's finances and to show the City's accountability for money it receives. If you have questions about the report or need additional financial information, contact:

Treasurers Office
1420 East 2850 South
Naples, Utah 84078
Phone: 435-789-9090

Fax: 435-789-9458

CITY OF NAPLES, UTAH
Statement of Net Assets
June 30, 2005

	Governmental Activities
Assets:	
Cash and investments	\$ 1,303,124
Receivables:	
Sales taxes	263,098
Property taxes	63,470
Franchise taxes	11,922
Other governments	21,125
Other accounts receivable	770
Restricted assets	
Restricted cash	94,451
Special assessments receivable	13,092
Long-term loans receivable	53,234
Capital Assets	
Land	384,600
Streets, sidewalks and bridges (net of depreciation)	4,232,992
Equipment (net of depreciation)	406,409
Improvements (net of depreciation)	623,609
Buildings (net of depreciation)	540,928
Construction in progress	16,058
Total assets	<u>8,028,882</u>
Liabilities:	
Accounts payable	51,852
Employee benefits and taxes payable	2,853
Accrued interest	651
Building permit bonds	15,000
Deferred revenue:	
Property taxes	78,486
Grant revenue	16,128
Noncurrent liabilities	
Due within one year	29,776
Due in more than one year	90,983
Total liabilities	<u>285,729</u>
Net Assets:	
Invested in capital assets, net of related debt	6,112,596
Restricted for:	
Parks	168
Rehabilitation loans	91,188
Debt service	32,053
Equipment replacement	16,165
Unrestricted	1,490,983
Total net assets	<u><u>\$ 7,743,153</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF NAPLES, UTAH
Statement of Activities
For the year ended June 30, 2005

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government	\$ 353,609	\$ 102,727			\$ (250,882)
Public safety					
Police	337,596	230	\$ 2,560	\$ 31,576	(303,230)
Fire	171,565			107,441	(64,124)
Other	29,570	24,138			(5,432)
Highways & public improvements	455,828		64,647	473,327	82,146
Parks, recreation & public property	80,027			69,295	(10,732)
Interest and fiscal charges on long-term debt	1,043				(1,043)
Total City	\$ 1,429,238	\$ 127,095	\$ 67,207	\$ 681,639	(553,297)
General Revenues					
Property taxes levied for					46,717
General purposes					38,418
Redevelopment					1,440,110
Sales taxes					113,614
Franchise taxes					30,994
Miscellaneous					1,669,853
Total general revenues					1,116,556
Change in net assets					6,630,876
Net assets - beginning					(4,279)
Prior period adjustment (Note 3.G.)					
Net assets - ending					\$ 7,743,153

The notes to the financial statements are an integral part of this statement.

CITY OF NAPLES, UTAH
BALANCE SHEET -- GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Naples Redevelopment Agency	Capital Projects Roads	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash (Note 3.A.)	\$ 814,353	\$ 121,700	\$ 84,135	\$ 282,936	\$ 1,303,124
Sales taxes receivable	263,098				263,098
Property taxes receivable	24,834	35,000		2,500	62,334
Franchise taxes receivable	11,922				11,922
Due from other governments	21,125				21,125
Other accounts receivable	770				770
Restricted assets:					
Restricted cash (Note 3.A.)	38,122			56,329	94,451
Special assessments receivable (Note 3.B.)				12,567	12,567
Long-term loans receivable (Note 3.C.)	53,234				53,234
Total Assets	1,227,458	156,700	84,135	354,332	1,822,625
LIABILITIES					
Accounts payable	51,852				51,852
Benefits payable	2,853				2,853
Deferred property taxes	40,986	35,000		2,500	78,486
Building permit bonds	15,000				15,000
Deferred special assessments				12,567	12,567
Deferred grant revenues	16,128				16,128
Total Liabilities	126,819	35,000	-	15,067	176,886
FUND EQUITY					
Fund balance:					
Reserved for parks	168				168
Reserved for rehabilitation loans	91,188				91,188
Reserved for debt service				40,164	40,164
Reserved for equipment replacement				16,165	16,165
Unreserved:					
Designated for equipment replacement				90,813	90,813
Designated for parks				173,012	173,012
Designated for roads			84,135		84,135
Undesignated	1,009,283	121,700		19,111	1,150,094
Total fund equity	1,100,639	121,700	84,135	339,265	1,645,739
Total Liabilities & Fund Equity	\$ 1,227,458	\$ 156,700	\$ 84,135	\$ 354,332	\$ 1,822,625

The accompanying notes are an integral part of these financial statements.

CITY OF NAPLES, UTAH
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
June 30, 2005

Total fund balances for governmental funds **\$ 1,645,739**

Total net assets reported for governmental activities in the statement of net assets is different because:

Property taxes levied for the current and prior year not received within 60 days of the year end are deferred in the governmental funds; but are recorded as income in the government-wide financial statements. 1,136

The income from special assessments is deferred until the annual payments from property owners become due, or are received in the governmental funds. However, in the government wide financial statements special assessments are recorded as revenue when the assessment is effective. 12,567

Interest on special assessments is not accrued in governmental funds, but rather is recognized a income when due, or received. 525

Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	384,600	
Construction in progress		16,058	
Streets & Bridges \$5,420,979, net of depreciation of \$1,187,987.		4,232,992	
Equipment \$897,565, net of depreciation of \$491,156		406,409	
Improvements \$801,730, less depreciation of \$178,121		623,609	
Buildings \$730,587, less depreciation of \$189,659		<u>540,928</u>	
			6,204,596

Interest on long-term debt (special assessment bonds) is not accrued in governmental funds, but rather is recognized as an expenditure when due. (651)

Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:

Revenue bonds payable	\$	(92,000)	
Special assessment bonds payable		(20,552)	
Compensated absences payable		<u>(8,207)</u>	<u>(120,759)</u>

Total net assets of governmental activities **\$ 7,743,153**

The notes to the financial statements are an integral part of this statement.

CITY OF NAPLES, UTAH
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General	Redevelopment Agency #1	Capital Projects Roads	Other Governmental Funds	Total Governmental Funds
REVENUES					
Sales taxes	\$ 1,440,110			\$	1,440,110
Franchise taxes	113,614				113,614
Property taxes	38,418	\$ 35,818		\$ 2,600	77,836
Fee in-lieu of taxes	7,974				7,974
Licenses and permits	36,254				36,254
Intergovernmental revenue	215,519		\$ 473,327	60,000	748,846
Fees and charges for services	460				460
Fines and forfeitures	90,381				90,381
Miscellaneous	40,753	1,221		8,204	50,178
Total Revenues	1,984,483	37,039	473,327	70,804	2,565,653
EXPENDITURES					
Current					
General government	327,395	25			327,420
Public safety					
Police	280,589			29,606	280,589
Fire	60,317				60,317
Other	29,570				29,570
Highways & public improvements	140,713				140,713
Parks, recreation & public property	2,447				2,447
Capital Outlay					
General government	36,809				36,809
Public safety					
Police	36,685			29,606	66,291
Fire	170,943				170,943
Highways & public improvements	65,966		500,300	8,027	574,293
Parks, recreation & public property	31,363			148,735	181,098
Debt Service					
Principal				21,589	21,589
Interest				854	854
Paying Agent's Fees				250	250
Total Expenditures	1,182,797	25	500,300	210,041	1,893,163
Excess revenues over (under) expenditures	801,686	37,014	(28,973)	(139,237)	672,490
Other financing sources (uses)					
Operating transfers in			58,600	232,663	291,263
Operating transfers out	(291,263)				(291,263)
Payments from Long-term Loans Receivable	(13,735)				(13,735)
Total Other Financing Sources (Uses)	(304,998)		58,600	232,663	(13,735)
Excess of revenues & other sources over (under) expenditures & other uses	496,688	37,014	31,627	93,428	658,755
Fund Balance - Beginning of Year	603,951	84,686	52,508	245,839	986,984
Fund Balance - End of Year	\$ 1,100,639	\$ 121,700	\$ 84,135	\$ 339,265	\$ 1,645,739

The accompanying notes are an integral part of these financial statements.

CITY OF NAPLES, UTAH
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2005

Net change in fund balances - total governmental funds **\$ 658,755**

Amounts reported for governmental activities in the statement of activities are different because:

Property taxes levied for the current year not received within 60 days of the year end are deferred in the governmental funds; but are recorded as income in the statement of activities. (675)

Governmental funds report income from special assessments when they become due from property owners. However, special assessments are recorded in the statement of activities when the assessment is effective. (4,548)

Governmental funds report interest income from special assessments receivable when it becomes due or is received. Such income is accrued and reported in the statement of activities as it is earned. (901)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of \$5000 or more are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. When such assets are sold, gain or loss is reported in the statement of activities for the difference between the undepreciated cost and the sales price. In the governmental funds statement of revenues, expenditures, and changes in fund balances the full amount received from the sale of capital assets is reported as income when it is received or due. The differences are summarized as follows:

Capitalized asset acquisitions	\$ 807,878	
Depreciation expense	<u>(364,363)</u>	
		443,515

Governmental funds report repayments of revenue and special assessment bond principal and the related interest as expenditures when the payments are due. In the statement of activities interest on revenue bonds is reported as expense as it accrues, regardless of when it is due. Bond principal payments are reported as reductions to liabilities in the statement of net assets. The net effect of these differences in the treatment of revenue bonds and related interest is as follows:

Bond principal repaid	\$ 21,569	
Interest expense - adjustment to accrual basis	<u>61</u>	
		21,630

Governmental funds report compensation for employee absences when such amounts become due. In the statement of activities that expense is accrued as the benefit is earned by employees.

Compensated absences - adjustment to accrual basis		<u>(1,220)</u>
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Change in net assets of governmental activities **\$ 1,116,556**

The notes to the financial statements are an integral part of this statement.

CITY OF NAPLES, UTAH
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Agency Funds</u>
	<u>Justice Court</u>
ASSETS	
Cash	\$ 9,480
Total assets	<u>\$ 9,480</u>
LIABILITIES	
Due to other government agencies	\$ 6,852
Bail bonds	<u>2,628</u>
Total liabilities	<u>\$ 9,480</u>

The accompanying notes are an integral part of these financial statements.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government	City of Naples
Blended Component Units	Naples Redevelopment Agency Naples 1500 South Redevelopment Agency Special Assessment Improvement District No. 2000-1

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the unit's board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

None of the component units have issued separate financial statements.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type to compose the primary government presentation.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Currently, the City has no discretely presented component units.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Blended Component Units

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Naples Redevelopment Agency	Created January 19, 1983, to accumulate resources and fund redevelopment improvements in its area as provided for in the <i>Utah Neighborhood Development Act</i> . The current City Council serves as the entire governing body.	Special Revenue Fund
Naples 1500 South Redevelopment Agency	Created October 13, 1992, to accumulate resources and fund redevelopment improvements in its area as provided for in the <i>Utah Neighborhood Development Act</i> . The current City Council serves as the entire governing body.	Special Revenue Fund
Special Improvement District No. 2000-1	Created April 26, 2001, to accumulate resources, fund street, curb and sidewalk improvements in its area, and retire special improvement bonds. The current City Council serves as the entire governing body.	Debt Service

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities; however, since the City has no business type activities only governmental activities are shown. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. (Since the City has no proprietary funds, that category is eliminated.) An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

Debt Service Funds

Debt service funds account for the accumulation of financial resources for the payment of interest and principal on the general long-term debt of the City. The City has both revenue bonds and special assessments bonds outstanding.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Fiduciary Funds (Not included in government-wide statements)

Agency Funds

Agency funds account for assets held by the City in a purely custodial capacity. The reporting entity includes one agency fund. Since agency funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The agency fund is as follows:

Fund	Brief Description
Justice Court Fund	Accounts for fines and forfeitures collected by the Justice Court for other government agencies, and for bail bonds posted by individuals awaiting court dates.

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Classification	Brief Description
Major:	
General Fund	See above for description
Special Revenue	
Naples Redevelopment Agency	Accumulates resources and funds redevelopment improvements within its area.
Capital Projects	
Roads	Accumulates resources from government grants and transfers from general fund and constructs improvements to roads, bridges and related structures.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Classification	Brief Description
Nonmajor:	
Special Revenue	
Naples 1500 South Redevelopment Agency	Accumulates resources and funds redevelopment improvements within its area.
Debt Service	
Debt Service	Accumulates resources and pays principal and interest on revenue bonds.
Special Assessment Improvement District No. 2000-1	Receives special assessments from property owners and pays principal and interest on special assessment bonds.
Capital Projects	
Assets Acquisition	Accumulates resources from government grants and transfers from general fund and purchases capital assets for the City's use.
Parks	Accumulates resources from government grants, private contributions, and transfers from general fund and constructs capital improvements to the City's parks.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the *economic resources* measurement focus as defined in item b. below.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

In the fund financial statements, the *current financial resources* measurement focus is used.

- a. All governmental funds utilize a *current financial resources* measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The government-wide financial statements utilize an *economic resources* measurement focus. The accounting objectives of this measurement focus are the determination of changes in net assets and financial position. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when *measurable and available*. *Measurable* means knowing or being able to reasonably estimate the amount. *Available* means collectible within the current period or within sixty days after year-end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for bond principal and interest which are reported when due.

Expenditure of Restricted Revenues

Restricted resources are used first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, *cash* includes all demand, and savings accounts of the City.

Investments in the Public Treasurers' Investment Fund (PTIF) are carried as cost, plus accrued interest, which approximates fair value. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. No allowance for uncollectible accounts receivable has been recorded since collection of the accounts is substantially certain. Major receivable balances for the governmental activities include sales taxes, property taxes, franchise taxes, grants and revenue allotments from other governmental entities.

Restricted Assets

Restricted assets include cash restricted by grantors/donors for parks, rehabilitation loans, and equipment replacement, and by bond resolutions for payment of long-term debt. Special assessments receivable are restricted for payment of special assessment bonds. And long-term rehabilitation loans, when collected, may only be used to fund future rehabilitation loans.

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual cost is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental funds' infrastructure assets (streets, sidewalks and bridges) were not capitalized. Certain of these assets have been valued at estimated historical cost.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

- | | |
|----------------------------------|-------------|
| • Buildings | 20-40 years |
| • Improvements | 10-40 years |
| • Machinery and equipment | 5-10 years |
| • Streets, sidewalks and bridges | 10-50 years |

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-term Debt

The accounting for long-term debt depends on whether it is reported in the government-wide or fund financial statements.

All long-term debts to be repaid from governmental resources are reported as liabilities in the government-wide financial statements. The long-term debt consists of revenue bonds, special assessment bonds, and accrued compensated absences.

Long-term debts for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Compensated Absences

The City's policies regarding vacation and compensatory time permit employees to accumulate earned but unused vacation and compensatory leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets – consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Sales Taxes

The City levies a one percent sales tax on taxable sales within the City, and a one percent use tax on personal property purchased outside the City limits, but used or consumed within the City. The taxes are collected by the Utah State Tax Commission and remitted to the City in the month following receipt by the Tax Commission, which is one to three months after the tax is collected by vendors. Sales and use taxes are reported in the General Fund and are used by the City without restriction. Sales and use taxes collected by the Tax Commission in June and July and received by the City in July and August have been accrued and are included under the caption *sales taxes receivable*.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Franchise Taxes

The City levies a franchise tax on cable television, electric, and telephone utilities, and a municipal energy sales tax on natural gas utilities within the City. The utility companies remit the taxes directly to the City, except for municipal telecom franchise taxes, which are remitted through the Utah State Tax Commission. Taxes are reported in the General Fund and are used without restriction. Taxes received by the City in July and August for the month of June or prior months are accrued and are included under the caption *franchise taxes receivable*.

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and payable on November 30. Uintah County bills and collects property taxes for all taxing districts within the County. Collections are periodically apportioned to the City with final settlement being made on March 31 of the subsequent year. In the fund financial statements, property taxes are recorded as revenue in the year for which they were levied to the extent they are collected within 60 days after year-end. In the government-wide financial statements additional accrual is made for the delinquent taxes reported by the Uintah County Treasurer that were not received within 60 days after year-end. Property taxes receivable include both property taxes and fee in-lieu of property taxes, which are collected in the same manner as property taxes. In addition to the City's property tax levy for the General Fund, the Naples Redevelopment Agency and the Naples 1500 South Redevelopment Agency receive property taxes based on the incremental value of assessed properties within the agencies. The General Fund property taxes may be used without restriction. The redevelopment agencies' property taxes are restricted to use within the respective redevelopment agencies.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function.

In the fund financial statements, governmental funds expenditures are classified by character: current (further classified by function), debt service, and capital outlay. Governmental funds report expenditures of financial resources.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Interfund Transfers

Permanent reallocations of resources between funds of the reporting entity are classified as Interfund transfers. For purposes of the Statement of Activities, all Interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

Fund	Required By:
Naples Redevelopment Agency	State Law
Naples 1500 South Redevelopment Agency	State Law
Special Improvement District No. 2000-1	State Law
Debt Service Fund	Bond Resolution
Capital Projects: Assets Acquisition	Grant Agreement

2.B. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

Utah State statutes do not require deposits to be collateralized, however, the State Money Management Council must approve financial institutions. All deposits of the City have been in approved institutions during the year. The City has not adopted a policy regarding custodial credit risk for deposits.

Statutes authorize the City to invest in deposits of qualified depositories, repurchase agreements, commercial paper rated P-1 by Moodys or A-1 by Standard and Poor, Inc., bankers acceptances, obligations of the U.S. and other financial investments as authorized in Utah Code 51-7-11. The City has invested exclusively in the Public Treasurers' Investment Fund. Investments in the Public Treasurers' Investment Fund comply with the State Statutes. The City has not adopted a policy regarding custodial credit risk for investments.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from federal, state, and local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
"C" Road Allotment	Highways and Streets
State Liquor Tax	Liquor Law Enforcement
Local Law Enforcement Block Grant	Police Equipment
Community Development Block Grant	Fire Station Improvements
State Fire Department Assistance Grant	Fire Department Equipment
State Permanent Community Impact Board Grant	Fire Station Improvements
State Permanent Community Impact Board Grant	Park Improvements
State Urban & Community Forestry Grant	Park Trees
Rehabilitation Loan Payments	Rehabilitation Loans
Federal Emergency Management Agency	Fire Department Equipment
Federal Homeland Security Grants	Police Emergency Equipment
Federal Highway Grant	Bridge Construction
Uintah County Bridge Grant	Bridge Construction
Uintah Parks & Recreation	Park Improvements
Uintah Special Service District Grant	Road Improvements
Property Taxes	Redevelopment Projects
Special Improvement Assessments	Debt Service

For the year ended June 30, 2005, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

The *Constitution of Utah, Article XIV* limits the amount of general obligation debt the City may issue to four percent of the fair market value of taxable property in its jurisdiction, plus up to an additional eight percent for the purpose of supplying the City with water, sewer or electricity when such public works are owned and controlled by the municipality, and requires the proposition to create general obligation debt be submitted to a vote of qualified electors. The city currently has no general obligation debt.

The *Constitution* allows the City to issue revenue bonds and special assessment bonds. The City has issued the following bonds. Each of the bond issues has certain sinking fund requirements as explained below.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Road Bonds 2000

The City issued "C" road bonds series 2000 in the amount of \$186,771, for the purpose of partially funding improvements to city streets. The bonds are payable from the City's "C" road allotment which is received annually from the State of Utah. The bonds mature in ten (10) annual payments beginning May 1, 2001 with no interest.

The bond resolution for the "C" Road Revenue Bonds - 2000 series requires quarterly deposits of 1/4 the annual bond payment into a sinking fund. Deposits are due May 15, July 15, January 15, and April 15 to service the bond payment due on May 1.

The bond resolution also requires quarterly deposits of \$1,056 into a reserve fund until a balance of \$19,000 is accumulated and maintained until the final bond payment. Deposits are due July 10, October 10, January 10 and April 10.

As of June 30, 2005 the sinking fund required balance was \$4,750, and the reserve fund balance was \$19,000, for a total of \$23,750. The balances in the City's Debt Service fund at June 30, 2005 were \$28,853, which exceeded required amounts.

Special Assessment Bonds 2002

The Special Assessment Improvement District No. 2000-1 issued Naples City, Utah Special Assessment Bonds, Series 2002 during the fiscal year ended June 30, 2003. The bonds were issued to partially finance certain improvements within the special improvement district. The series is composed of ten bonds, each in the amount of \$2,569, one of which matures each year beginning September 1, 2003. Each bond bears a different rate of interest, ranging from 2.45% to 4.25% with an average rate of 3.57%. The bonds are payable from special improvement assessments charged to property owners within the special improvement district. However, if property owner payments are not sufficient to pay the bonds as they mature, the shortage will be paid from a debt service reserve fund, funded by a deposit of District funds in the amount of \$2,569. The debt service reserve fund is to be replenished by the proceeds from the sale of delinquent property, and if those proceeds are insufficient, from appropriation from the general fund, by the levy of a tax, by the issuance of general obligation bonds, or from other sources determined by the District.

As of June 30, 2005 the City's Special Assessment Improvement District No. 2000-1 fund held the required reserve fund balance of \$2,569, plus other funds from property owner payments totaling \$8,742, for a total of \$11,311 restricted for debt service.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

2.E. PURCHASING REQUIREMENTS

The Utah Uniform Fiscal Procedures Act for Cities requires cities to adopt an ordinance or resolution governing purchasing procedures, and requires that purchases be made in accordance with the established purchasing procedures. The City has adopted the required ordinance and follows those procedures.

2.F. BUDGETARY PROCEDURES AND COMPLIANCE

The *Utah Code, Section 10-6* requires that all City expenditures be made only from amounts appropriated in a legally adopted budget. The budgetary compliance level in the general fund is each department. The budgetary compliance level in all other City funds is the fund total. An annual budget is to be adopted for each governmental fund and may be amended as follows:

- Prior to May 1, the Mayor submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- The proposed budget is reviewed, revised and tentatively adopted by the City Council prior to public hearing.
- A public hearing is conducted to obtain taxpayer comments after which the final budget is adopted.
- The City Council is authorized to transfer budgeted amounts between departments within the general fund by resolution; however, the budget of any governmental fund may only be increased after the proper public hearing.

For the fiscal year ended June 30, 2005 expenditures in all departments of the general fund, and in all other funds were within budget allotments.

2.G. TRUTH IN TAXATION AND PROPERTY TAX LIMITATIONS

The *Utah Code 59-2-912* requires the City Council to adopt, on or before June 22 of each year, a proposed property tax rate or, if the tax rate is not more than the certified tax rate, a final tax rate for the City. The City reports the rate and levy to the county auditor.

If the City Council proposes a tax rate exceeding the certified tax rate, the following requirements specified by *Utah Code 59-2-919 and 920* must be met:

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

- The City must notify the county that it will hold a tax increase hearing on the date previously set. The county must include the information on the proposed increase and the date and time of the hearing in its *Notice of Valuation and Tax Changes*. This notice must be mailed at least ten days prior to the hearing date
- The City must advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county. The advertisement must appear once each week for the two weeks preceding the hearing. The date of the advertisement must be at least 7 days prior to the hearing.
- The advertisement must be at least a quarter page in size and must not be placed in the portion of the newspaper where legal notices and classified advertising appear. The type used shall not be less than 18, and shall be surrounded by a ¼ inch border.
- A public hearing must be held at the date and time advertised.
- The City Council must adopt an ordinance or resolution setting the tax rate and certify that rate to the county auditor.

The City Council adopted a tax rate equal to the certified rate for tax year 2004, and complied in all other respects with law.

2.H. FUND BALANCES

Deficit Fund Balances

Utah Code 10-6-117(1) states that appropriations in the final budgets may not be made for any fund in excess of the estimated expendable revenues for the budget year. In other words, deficits in any fund are illegal.

As of June 30, 2005 all the City's funds had positive fund balances.

Limits on Fund Balances

Utah cities may accumulate fund balances in any fund. However, *Utah Code 10-6-116* provided minimum and maximum fund balance limitations for the general fund. Only the fund balance in excess of 5% of total revenues of the general fund may be utilized for budget purposes. The remaining 5% must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18% of the total estimated revenue of the general fund.

As of June 30, 2005 the general fund balance exceeded the maximum allowed by approximately \$727,000.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

2. I. JUSTICE COURT COMPLIANCE

Utah Code Section 78-5-135 requires the City's Justice Court to deposit funds it collects within three business days after receipt into an account controlled by the City Treasurer. Amounts collected are to be reported and distributed to the State and other governmental entities, including the City, by the 10th of the following month.

Utah Code Section 63-63a-1 requires the Justice Court to impose a surcharge on all criminal fines, penalties and forfeitures, and specifies the rate of the surcharge depending on the type of offence committed. The Justice Court is required to remit the surcharges collected together with the State's portion specified fines and penalties to the State. Other *Utah Code* sections specify amounts to be collected and how they are to be divided between the State, the City, and other governmental entities.

During the fiscal year ended June 30, 2005 the City complied in all material respects with the requirements governing its Justice Court.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/expenses.

3. A. CASH AND INVESTMENTS

Deposits

The City's policies regarding deposits of cash are discussed in Notes 1.D. and 2.B.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City has not adopted a policy for deposit custodial credit risk. As of June 30, 2005 the bank's balances for the City's deposits totaled \$95,384 and was fully covered by Federal Depository Insurance. Deposits are not collateralized, nor are they required to be.

Investments

The City's policies and applicable laws regarding investments are discussed in Notes 1.D. and 2.B. The City has limited its investments to the Utah Public Treasurers' Investment Fund (PTIF), an external investment pool. The Utah State Treasurer manages the PTIF. All investments in the Fund must comply with the Money Management Act and Rules of the

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Money Management Council. Balances at 6/30/2005, both fair value and carrying amount, totaled \$1,324,995.

Custodial credit risk – investments. In the case of investments, this is the risk that in event of a failure of an investment institution, the City's investments may not be returned to it. The City has not adopted a policy for investment custodial credit risk.

Reconciliation to Government-wide Statement of Net Assets

Demand Deposits	\$ 81,710
Cash on hand	350
Investments in external investment pool	1,324,995
Total cash and investments	<u>\$1,407,055</u>
Cash and investments	\$1,303,124
Restricted cash	94,451
Agency fund cash (not included in government-wide statement)	9,480
Total	<u>\$1,407,055</u>

3.B. SPECIAL ASSESSMENTS RECEIVABLE

The Special Assessment Improvement District No. 2000-1 issued Naples City, Utah Special Assessment Bonds, Series 2002 during the fiscal year ended June 30, 2003. The bonds are to be paid from the proceeds of special assessments to property owners within the special improvement district. The amounts due from property owners come due with the bond payment maturities. Balances due from property owners at June 30, 2005 were \$13,092.

3.C. LONG-TERM LOANS RECEIVABLE

The City received federal grant funding for its Rehabilitation Loan Program. The City used the grant to fund loans for qualified low-income residents to renovate their homes. The loans are payable monthly at varying low rates of interest. The City makes additional loans to other qualified residents as funds become available from repayments on previous loans. At June 30, 2005, loans receivable totaled \$53,234. Funds available for future loans at June 30, 2005 totaled \$37,954. The total of loans receivable and program loans on hand, \$91,188, is reported in the statement of net assets as restricted for rehabilitation loans.

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance at July 1, 2004	Additions	Disposals	Balance at June 30, 2005
Governmental activities:				
Land	\$ 384,600	\$ -	\$ -	\$ 384,600
Streets, sidewalks and bridges	4,326,636	1,094,344	-	5,420,980
Equipment	778,408	119,158	-	897,566
Improvements	771,344	30,387	-	801,731
Buildings	444,706	285,881	-	730,587
Construction in progress	737,950	16,058	737,950	16,058
Total	7,443,644	1,545,828	737,950	8,251,522
Less accumulated depreciation:				
Streets, sidewalks and bridges	(945,519)	(242,469)		(1,187,988)
Equipment	(421,418)	(69,739)		(491,157)
Improvements	(140,143)	(37,979)		(178,122)
Buildings	(175,483)	(14,176)		(189,659)
Total	(1,682,563)	(364,363)	-	(2,046,926)
Governmental activities capital assets, net	\$ 5,761,081	\$ 1,181,465	\$ 737,950	\$ 6,204,596

Depreciation expense was charged to governmental activities as follows:

General government	\$ 6,465
Public safety	
Police	19,138
Fire	25,254
Other	-
Highways and public improvements	277,166
Parks, recreation and public property	36,340
Total depreciation	\$ 364,363

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

3.E. LONG-TERM DEBT

The City's long-term debt is described in Note 2.D. The following is a summary of the changes in long-term debt:

Description of Debt	Balance			Balance 6/30/2004	Due in	
	6/30/2005	Borrowed	Retired		Due Within 1 Year	More Than One Year
Road Bonds 2000	\$ 111,000	\$ -	\$ 19,000	\$ 92,000	\$ 19,000	\$ 73,000
Special Assessment Bonds 2002	23,121	-	2,569	20,552	2,569	17,983
Accrued Leave	6,987	1,220	-	8,207	8,207	-
Total	<u>\$ 141,108</u>	<u>\$ 1,220</u>	<u>\$ 21,569</u>	<u>\$ 120,759</u>	<u>\$ 29,776</u>	<u>\$ 90,983</u>

The combined aggregate amount of debt service requirements (principal and interest) by year is as follows:

Due Fiscal Year Ended June 30	Road Bonds 2000	Special Assessment Bonds 2002			Total Debt Service
	Principal	Principal	Interest	Total	
2006	19,000	2,569	781		
2007	19,000	2,569	699	3,350	22,350
2008	19,000	2,569	611	3,268	22,268
2009	19,000	2,569	519	3,180	22,180
2010	16,000	2,569	421	3,088	22,088
2011-2013	-	7,707	645	8,352	8,352
Total	<u>\$ 92,000</u>	<u>\$ 20,552</u>	<u>\$ 3,676</u>	<u>\$ 21,238</u>	<u>\$ 97,238</u>

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

3. F. INTERFUND TRANSFERS

The City transferred "C" Road funds from the General fund to the Debt Service fund to pay the annual revenue bond payment \$19,000 and to satisfy the related reserve fund requirements \$4,224. The City transferred funds from the General Fund to partially fund capital expenditures in the Capital Projects Assets Acquisition Fund \$42,607, in the Capital Projects Parks Fund \$166,832, and in the Capital Projects Roads Fund \$58,600.

3. G. PRIOR PERIOD ADJUSTMENT

A correction was made to reduce the prior period net assets by \$4,279 to correct an overstatement in the balance of special assessments receivable.

4. PENSION PLANS

Plan Description. The City of Naples, Utah contributes to the Local Governmental Contributory Retirement System (Contributory System) and the Public Safety Retirement System. The systems are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended, which also establishes the Utah State Retirement Office for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their annual covered salary (all or part may be paid by the employer for the employee) and Naples City is required to contribute 7.08% of annual covered salaries. In the Public Safety Contributory Retirement System members are required to contribute 12.29% of their salary (all or part may be paid by the employer for the employee) and Naples City is required to contribute 7.70% of annual salaries. In the Public Safety Noncontributory System Naples City is required to contribute 19.08% of covered salaries. The contribution rates are the actuarially determined rates and are approved by the

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Board as authorized by Chapter 49. Naples City paid all employee contributions for its employees.

Naples City's contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2005, 2004 and 2003 were \$19,879, \$16,574, and \$14,105 respectively, for the Public Safety Contributory Retirement System the contributions for the years ending June 30, 2005, 2004 and 2003 were \$7,625, \$6,107, and \$11,801 respectively, and for the Public Safety Noncontributory Retirement System the contributions for the years ending June 30, 2005, 2004, and 2003 were \$6,894, \$5,308, and \$2,204 respectively. The contributions were equal to the required contributions for each year.

Naples City also contributed \$22,157, \$19,613, and \$11,909 to the State Retirement System's 401(k) defined contribution plan for the benefit of employees for the years ended June 30, 2005, 2004 and 2003 respectively.

5. RISK MANAGEMENT

The City of Naples, Utah is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased through the Utah Local Governments Trust. Settled claims from these risks have not exceeded commercial insurance coverage.

6. REDEVELOPMENT AGENCIES - REQUIRED DISCLOSURES

Utah State Code Section 17A-2-1217(3) requires disclosure of certain information regarding each of the City's redevelopment agencies. The City of Naples, Utah has two redevelopment agencies. The required disclosures for the year ended 6/30/05 for each agency are as follows:

Naples Redevelopment Agency

- | | |
|---|----------|
| • The tax increment collected by the agency | \$35,818 |
| • The amount of tax increment paid to any taxing agency pursuant to Section 17a-2-1258 | \$ 0 |
| • The outstanding principal amount of bonds issued or other loans incurred to finance the costs associated with the project areas | \$ 0 |
| • The actual amount expended for: | |
| (i) acquisition of property | \$ 0 |
| (ii) site improvements or preparation costs | \$ 0 |
| (iii) installation of public utilities or other public improvements | \$0 |
| (iv) administrative costs of the agency | \$25 |

CITY OF NAPLES, UTAH
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Naples 1500 South Redevelopment Agency

• The tax increment collected by the agency	\$2600
• The amount of tax increment paid to any taxing agency pursuant to Section 17a-2-1258	\$ 0
• The outstanding principal amount of bonds issued or other loans incurred to finance the costs associated with the project areas	\$ 0
• The actual amount expended for:	
(i) acquisition of property	\$ 0
(ii) site improvements or preparation costs	\$ 0
(iii) installation of public utilities or other public improvements	\$ 8,027
(iv) administrative costs of the agency	\$ 0

CITY OF NAPLES, UTAH
Budgetary Comparison Schedule - General Fund
For the year ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Sales taxes	\$ 700,500	\$ 786,362	\$ 1,440,110	\$ 653,748
Franchise taxes	90,600	90,600	113,614	23,014
Property taxes	48,850	48,850	39,418	(9,432)
Fee in-lieu of taxes	2,000	2,000	7,974	5,974
Licenses and permits	28,270	28,270	36,254	7,984
Intergovernmental revenue	270,037	330,783	215,519	(115,264)
Fees and charges for services	1,450	1,450	460	(990)
Fines and forfeitures	90,250	90,250	90,381	131
Miscellaneous	13,400	13,400	40,753	27,353
Total revenues	<u>1,245,357</u>	<u>1,391,965</u>	<u>1,984,483</u>	<u>592,518</u>
Expenditures:				
General government				
Legislative	24,433	24,433	23,517	916
Justice Court	48,487	48,487	45,010	3,477
City Administrator	63,221	63,221	55,174	8,047
Treasurer	16,332	17,592	7,895	9,697
Recorder	46,376	46,376	40,125	6,251
Elections	500	500		500
City Attorney	24,000	24,000	22,447	1,553
Independent Auditor	9,300	13,300	12,364	936
Liability Insurance	26,550	29,550	23,518	6,032
General Government Buildings	225,955	230,255	170,558	59,697
Supplies/Equipment	12,250	23,755	17,297	6,458
Planning and Zoning	6,150	9,150	1,634	7,516
Boards & Commissions	250	250		250
Education & Promotion	5,750	5,750	4,188	1,562
Rehabilitation Loans	12,000	12,000		12,000
Public safety				
Police Department	274,875	396,374	314,821	81,553
Traffic School	3,152	3,152	2,452	700
Central Dispatch	9,952	9,952	9,952	-
Fire Protection	225,395	243,295	171,738	71,557
Building Inspector	12,805	12,805	11,027	1,778
Animal Control	6,200	7,700	7,186	514
School Crossing Guard	1,181	1,555	1,405	150
Highways & public improvements				
Highways	208,464	254,275	195,970	58,305
Street Lights	10,800	10,800	10,709	91
Parks, recreation & public property				
Parks	<u>46,300</u>	<u>60,720</u>	<u>33,810</u>	<u>26,910</u>
Total expenditures	<u>1,320,678</u>	<u>1,549,247</u>	<u>1,182,797</u>	<u>366,450</u>
Excess of revenues over (under) expenditures	(75,321)	(157,282)	801,686	958,968
Other financing sources (uses):				
Transfers to other funds	(123,224)	(291,263)	(291,263)	-
Payments from Long-term Loans Receivable			(13,735)	(13,735)
Total other financing sources (uses)	<u>(123,224)</u>	<u>(291,263)</u>	<u>(304,998)</u>	<u>(13,735)</u>
Excess of revenues & other sources over (under) expenditures & other uses	(198,545)	(448,545)	496,688	945,233
Fund Balance - Beginning	603,951	603,951	603,951	-
Fund Balance - Ending	<u>\$ 405,406</u>	<u>\$ 155,406</u>	<u>\$ 1,100,639</u>	<u>\$ 945,233</u>

CITY OF NAPLES, UTAH
Budgetary Comparison Schedule - Naples Redevelopment Agency
For the year ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 44,000	\$ 44,000	\$ 35,818	\$ (8,182)
Miscellaneous	700	700	1,221	521
Total revenues	<u>44,700</u>	<u>44,700</u>	<u>37,039</u>	<u>(7,661)</u>
Expenditures:				
Redevelopment	<u>44,700</u>	<u>44,700</u>	<u>25</u>	<u>44,675</u>
Total expenditures	<u>44,700</u>	<u>44,700</u>	<u>25</u>	<u>44,675</u>
Excess of revenues over (under) expenditures	-	-	37,014	37,014
Fund Balance - Beginning	<u>84,686</u>	<u>84,686</u>	<u>84,686</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 84,686</u>	<u>\$ 84,686</u>	<u>\$ 121,700</u>	<u>\$ 37,014</u>

CITY OF NAPLES, UTAH
COMBINING BALANCE SHEET -- OTHER GOVERNMENTAL FUNDS
JUNE 30, 2005

	Naples 1500 South Redevelopment Agency	Debt Service	Capital Projects Assets Acquisition	Capital Projects Parks	Special Assessment Improvement District No. 2000-1	Total Other Governmental Funds
ASSETS						
Cash (Note 4)	\$ 19,111	\$	90,813	\$ 173,012	\$	282,936
Property taxes receivable	2,500					2,500
Restricted cash (Note 4)	\$	28,853	16,165	\$	11,311	56,329
Special assessments receivable (Note 3 B.)					12,567	12,567
Total Assets	21,611	28,853	106,978	173,012	23,878	354,332
LIABILITIES						
Deferred property taxes Note 1.D.)	2,500				12,567	2,500
Deferred special assessments						12,567
Total Liabilities	2,500	-	-	-	12,567	15,067
FUND EQUITY						
Fund balance:						
Reserved for debt service		28,853			11,311	40,164
Reserved for equipment replacement			16,165			16,165
Unreserved:						
Designated for equipment replacement			90,813			90,813
Designated for parks				173,012		173,012
Undesignated	19,111					19,111
Total fund equity	19,111	28,853	106,978	173,012	11,311	339,265
Total Liabilities & Fund Equity	\$ 21,611	\$ 28,853	\$ 106,978	\$ 173,012	\$ 23,878	\$ 354,332

The accompanying notes are an integral part of this financial statement.

**CITY OF NAPLES, UTAH
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Naples 1500 South Redevelopment Agency	Debt Service	Capital Projects Assets Acquisition	Capital Projects Parks	Special Assessment Improvement District No. 2000-1	Total Other Governmental Funds
REVENUES						
Property taxes	\$ 2,600				\$	2,600
Intergovernmental revenue				\$ 60,000		60,000
Miscellaneous		\$ 937	\$ 1,096		\$ 6,171	8,204
Total Revenues	2,600	937	1,096	60,000	6,171	70,804
EXPENDITURES						
Current						
Capital Outlay						
Public safety						
Police			29,606			29,606
Highways & public improvements	8,027					8,027
Parks, recreation & public property				149,735		149,735
Debt Service		19,000			2,569	21,569
Principal					854	854
Interest					250	250
Paying agent's fees						
Total Expenditures	8,027	19,000	29,606	149,735	3,673	210,041
Excess revenues over (under) expenditures	(5,427)	(18,063)	(28,510)	(89,735)	2,498	(139,237)
Other financing sources (uses)						
Operating transfers in		23,224	42,607	166,832		232,663
Total Other Financing Sources (Uses)	-	23,224	42,607	166,832	-	232,663
Excess of revenues & other sources over (under) expenditures & other uses	(5,427)	5,161	14,097	77,097	2,498	93,426
Fund Balance - Beginning of Year	24,538	23,692	92,881	95,915	8,813	245,839
Fund Balance - End of Year	\$ 19,111	\$ 28,853	\$ 106,978	\$ 173,012	\$ 11,311	\$ 339,265

The accompanying notes are an integral part of this financial statement.

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

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Vernal, Utah 84078-2104
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Fax (435) 789-0340



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and City Council
City of Naples, Utah

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Naples, Utah as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2005. We conducted our audit in accordance with auditing standard generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Naples, Utah's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to the management of City of Naples, Utah in the accompanying schedule of findings.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Naples, Utah's financial statements are free of material misstatement, we performed tests of its compliance with certain

provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management in the accompanying schedule of findings.

This report is intended solely for the information and use of the Mayor and City Council, management, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Colin R. Rasmussen + Kelly LLP

Vernal, Utah

December 13, 2005.

CALDWELL, COOMBS & FOLEY, LLP

Certified Public Accountants

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(435) 789-0961
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INDEPENDENT AUDITORS' REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
The City of Naples, Utah

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Naples, Utah as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 13, 2005. As part of our audit, we have audited the City of Naples, Utah's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major State assistance programs from the State of Utah:

- C Road Funds (Department of Transportation)
- Liquor Law Enforcement (State Tax Commission)

The City also received the following nonmajor grants, which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City of Naples, Utah's financial statements.)

- Community Impact Grants (DCED, Community Development Division)
- Fire and Rescue Academy and Rural Community Fire Protection Grant (DNR, Division of Forestry, Fire and State Lands)
- Utah Urban & Community Forestry Partnership Grant (DNR, Division of Forestry, Fire and State Lands)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the Utah Legal Compliance Audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth In Taxation & Property Tax Limitations
- Justice Court
- C Road Funds
- Liquor Law Enforcement
- Other General Issues

The management of the City of Naples, Utah is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are disclosed in the accompanying Schedule of Findings. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion the City of Naples, Utah complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.

Riddell Crampton & Kelly, LLP

Vernal, Utah
December 13, 2005

**CITY OF NAPLES, UTAH
SCHEDULE OF FINDINGS
For The Year Ended June 30, 2005**

COMPLIANCE AND OTHER MATTERS

2005-1. Excess General Fund Balance

Condition: The unreserved general fund balance at June 30, 2005 exceeded the limit allowed by State Law by \$727,237.

Criteria: *Utah Code 10-6-116(2)* limits the accumulation of fund balance in the general fund to 18% of estimated general fund revenues.

Effect: The City must expend the excess, transfer it to capital projects funds, or include it as a revenue source in its 2007 budget in order to comply with State Law.

Recommendation: We recommend the excess fund balance be expended or be transferred to a capital projects fund as allowed by State Law. The budget will need to be amended to provide for the additional expenditures or transfers.

Response: We have already anticipated much of the excess in our 2005/2006 budget and will expend or transfer the excess general fund balance into capital projects funds as allowed by State Law.

2005-2. Treasurer's Bond

Condition: The required bond for the fiscal year ended June 30, 2005 was \$132,012. The treasurer's bond was for \$114,000, so it was for less than the required amount.

Criteria: *Utah Code 51-7-15* and Rule 4 of the Utah Money Management Council require every public treasurer to secure a fidelity bond, based on the previous year's budgeted gross revenues, which includes all funds collected or handled by the public treasurer.

Effect: City assets had less protection than deemed necessary by the law.

Recommendation: We recommend that the City increase its treasurer's bond to the amount required for fiscal year 2006, which is \$177,382, or some larger amount.

Response: We will immediately increase the treasurer's bond to \$200,000.

2005-3. Property Tax Procedures

Condition: The amount reported on Tax Commission Form TC-693 as budgeted property taxes does not agree with the budget.

Criteria: The Utah State Tax Commission requires the filing of form TC-693 *Tax Rate Summary*. The form includes a column "Budgeted Revenue." The amounts in that column should be the same as the revenue amounts in the City's adopted budget.

Recommendation: The City should make sure the amount reported on form TC-693 as budgeted revenue agrees with its adopted budget.

Response: We will follow the recommendation.

2005-4. Deposit of Public Funds

Condition: Three out of sixty cash receipts tested were deposited beyond 3 business days after receipt.

Criteria: *Utah Code Section 51-4-2(2)* requires that all public funds be deposited daily, whenever practicable, but not later than three business days after receipt.

Recommendation: We recommend the City review its procedures regarding deposits of funds received and implement changes necessary to insure compliance with the statute.

Response: We have instructed the City Treasurer to review the City's procedures for depositing funds and to make necessary adjustments to insure compliance with the Statute.

2005-5. Expenditures of Grant Funds – Questioned Costs

Condition: We were informed that a portion of the expenditure of FEMA Fire Grant funds had been questioned by the federal grant administrator because the number of items purchased with grant funds exceeded the number approved in the grant.

Criteria: The City is responsible to follow the requirements specific to each grant program. Grant documents specified that grantees that complete the approved scope of work prior to the end of the performance period and still have grant funds available may unilaterally use as much as \$5,000 to continue or expand the activities for which they received the award, or they may obtain advance permission to use more than \$5,000 to expand the activities, or they must refund the excess funds.

Effect: The City may be required to refund the amount of funds expended beyond the approved scope of work. The amount of questioned costs is estimated to be \$15,712.

Recommendation: City officials responsible for administering each grant program should become familiar with the requirements specific to their grant, and should insure that all requirements are complied with.

Response: We will work with the federal awarding agency to resolve the questioned costs. In the future, we will pay particular attention to specific grant requirements to insure our compliance.

INTERNAL CONTROLS

2005-6. Reconciling Justice Court Receipts To Monthly Court Reports

Condition: The City has accumulated funds in the Justice Court bank account in excess of amounts reported in the Court's monthly reports to the State and City. At June 30, 2005 excess funds totaled \$3,471. Of the excess funds, \$477 was accumulated during fiscal year 2005, with the balance being carried over from prior years.

Criteria: Internal controls should include a reconciliation of actual funds collected and deposited to amounts reported in the monthly reports.

Effect: The City is not readily able to identify whether the excess funds belong to the City or whether a part of the funds belong to the State. In either case the funds are not currently available for the City's use.

Recommendation: The Court Clerk and City Recorder should reconcile the funds deposited into the Justice Court checking account to the monthly court reports. The City should determine the correct disposition of the excess funds currently on hand and remit them accordingly.

Response: We have instructed the City Recorder and Court Clerk to determine the correct allocation of the excess funds and to remit them accordingly. Funds received will be reconciled monthly to court reports as recommended.

CITY OF NAPLES, UTAH
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2005

The following findings and recommendations were reported in the prior year audit. The current status of each finding and recommendation is indicated.

COMPLIANCE MATTERS

2004-1. Excess General Fund Balance

Condition: The unreserved general fund balance at June 30, 2004 exceeded the limit allowed by State Law by \$257,876.

Recommendation: We recommend the excess fund balance be expended or be transferred to a capital projects fund as allowed by State Law. The budget will need to be amended to provide for the additional expenditures or transfers.

Current Status: The City transferred the excess fund balance to capital projects funds as recommended. However, revenues exceeded expenditures in the current year resulting in a repeat of this finding. See 2005-1.

2004-2. Treasurer's Bond

Condition: The required bond for the fiscal year ended June 30, 2004 was \$145,312. The treasurer's bond was for \$123,083, so it was for less than the required amount.

Recommendation: We recommend that the City increase its treasurer's bond to the amount required for fiscal year 2005, which is \$132,012, or some larger amount.

Current Status: The City increased its bond on the treasurer to \$114,000 so the bond was not adequate. See 2005-2.

2004-3. Property Tax Procedures

Condition: The amount reported on Tax Commission Form TC-693 as budgeted property taxes does not agree with the budget.

Recommendation: The City should make sure the amount reported on form TC-693 as budgeted revenue agrees with its adopted budget.

Current Status: The finding is repeated. See 2005-3.

2004-4. Budget Compliance

Condition: The Special Assessment Improvement District No. 2000-1 expenditures exceeded budget appropriation by \$586.

Recommendation: We recommend the City all expenditures within approved budget appropriations.

Current Status: Expenditures in all departments and funds were within budget appropriations for fiscal year ended June 30, 2005.

INTERNAL CONTROLS

2004-5. Accounting for General Fixed Assets

Condition: The City updated the records of its fixed assets, including infrastructure, on new asset accounting software, and computed depreciation expense. However, the City did not have a system in place to accumulate the costs of assets under construction where construction took place in two or more fiscal years. Also, certain fixed assets acquisitions were charged to non-capital asset accounts. Formal procedures for recording the disposition of assets, whether by sale, loss, theft, or obsolescence were not in place.

Recommendation: The fixed assets records should be updated monthly during the year. Each department head should be held responsible for the assets in his/her department. Inventories should be taken annually. Appropriate procedures should be put in place to report sale, loss, theft, or obsolescence of assets. Capital acquisitions should be correctly recorded in capital purchases accounts. We suggest a chart of accounts, with detailed explanations as to what transactions should be charged to each account, be given to each department head. Department heads and employees who enter transactions into the accounting records should be careful to correctly code each transaction.

Current Status: We noted several instances where capital acquisitions were charged to non-capital accounts. We did not note the adoption of formal procedures for accounting for capital assets.

City of Naples

PEOPLE SERVING PEOPLE

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MAYOR
Dean A. Baker

CITY COUNCIL
Dale D. Bowden
Robert Hall
Dennis Long
Dan E. Olsen
Kenneth Reynolds

February 15, 2006

MacRay A. Curtis, CPA
Office of the State Auditor
P.O. Box 142310
Salt Lake City, UT 84114-2310


Dear Mr. Curtis:

The City of Naples has received your letter concerning our non-compliance regarding fund balance limitations. The City is aware of the problem and have taken steps to correct it. The City Council met on January 26, 2006 to open and amend the budget. This was done in order to place some of those funds in capital projects.

Our City has recently experienced an increase in sales tax revenue due to the increased activity in the oil field. The City had not anticipated this increase. With all of the building and expansion currently going on it was difficult for the City to get laborers to finish projects that were pending at the end of the fiscal year. Projects that we anticipated being completed by the end of the fiscal year were not finished and therefore we have used some of the excess funds to increase this years budget in anticipation of completing and paying for those projects.

The contact person for any questions pertaining to this matter is Nikki Kay, 435-789-9090.

Sincerely,



Dean A. Baker
Mayor